USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.09

Required Report - Public distribution

Date: 5/15/2008

GAIN Report Number: RP8029

Philippines

Coffee

Annual

2008

Approved by:
Emiko Purdy
U.S. Embassy

Prepared by:
Pia Abuel-Ang

Report Highlights:
Philippine coffee production declined by 6 percent to 97,890 MT in 2007. The drop in production was attributed in part to the decrease in the number of bearing trees as a result of rejuvenation of trees and a continued shift to banana and rubber production in Mindanao. Farmgate prices of coffee beans increased by 16.5 percent last year which will likely encourage the continued coffee production. However, rising food and oil prices and increasing availability of beverage substitutes will likely temper any significant increases in coffee consumption in the near term.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Manila [RP1]
[RP]

Production

According to the Philippine Department of Agriculture's Bureau of Agricultural Statistics, total coffee production declined by nearly 6 percent from 104,090 MT (dried berry basis) in 2006 to 97,890 MT last year. The drop in production was attributed in part to the decrease in the number of bearing trees as a result of rejuvenation of trees and a continued shift to banana and rubber production in Mindanao. Of the total supply of green beans coffee, an average of 60 percent is sourced from domestic production annually.

The area planted in 2007 to all varieties of coffee declined slightly. According to the BAS, from 126 thousand hectares in 2006, area planted fell to 123 thousand hectares in 2007. The contraction in area was partly attributed to the continued shifting from coffee to low-maintenance and high-priced crops such as Cavendish banana[1] and rubber in Davao Region and South Cotabato-Sultan Kudarat-Saragani-General Santos (SOCKSARGEN) area. Relatively low returns and difficulty in marketing coffee also led to the cutting down of less productive coffee trees and the replacement with low-maintenance and higher priced crops.

The Philippines lies in a narrow area in the world called the coffee belt making it one of the few countries that can grow four varieties of coffee: Arabica, Excelsa, Liberica and Robusta.

Coffee: Philippine Production (dried berry basis) January-December, 2005-2007			
Region	**2005**	**2006**	**2007P**
Value Million Pesos	P4,666	P4,957	P5,430
Volume Metric Tons	105,847	104,086	97,890
Ave. Farmgate Pesos/kg	P44.09	P47.63	P55.48

Source: Bureau of Agricultural Statistics

In 2007, the average monthly farmgate price of coffee (all varieties) at P55.28/kg, increased by 16.5 percent. Robusta coffee prices increased significantly in 2007, by about 25 percent. While Arabica farmgate prices improved by 5 percent in 2007 from the previous year. The marked improvement in coffee farmgate prices in 2007 will likely encourage more coffee production. Already from January to March 2008, the Philippine Department of Agriculture reported a modest increase of 1 percent in coffee production, compared to the previous period which registered a decline of 4 percent.

FARMGATE PRICES OF ROBUSTA, 2006-07 DRY BEANS (Pesos/kg)[2]		
	2006	**2007**
January	47.16	54.99
February	48.94	58.35
March	46.82	60.72
April	45.19	63.01
May	44.80	63.39

[1] Average farmgate prices of bananas increased by 9.4 percent in 2007.
[2] As of May 15, 2008, US$1=P42.79

June	46.32	57.92
July	39.28	52.67
August	40.74	51.86
September	43.60	54.47
October	43.26	54.52
November	49.94	56.61
December	51.61	56.87
Average	**45.64**	**57.12**

Source: Bureau of Agricultural Statistics

FARMGATE PRICES OF ARABICA, 2005-06 DRY BEANS (Pesos/kg)		
	2006	**2007**
January	57.71	63.08
February	58.89	67.51
March	59.81	67.31
April	60.62	73.81
May	48.19	44.31
June	48.35	44.48
July	42.69	42.15
August	40.65	44.48
September	42.99	47.13
October	45.78	40.78
November	52.28	52.92
December	54.25	53.51
Average	**51.02**	**53.46**

Source: Bureau of Agricultural Statistics

Consumption

Philippine GDP growth last year reached 7.3 percent, exceeding expectations and higher than the 5.4 expansion during the previous year. Increased private consumption, investments in public and private construction, more government spending as well as exports of non-factor services combined are credited for the very good performance of the economy. All sectors last year recorded positive growth led by services and industry. GNP growth rate was at 7.8 percent, also the fastest in 31 years and was enhanced by record-level remittances from overseas Filipino workers (OFWs).

Dollar inflows from OFWs in 2007 were estimated at $14 billion and dampened the inflationary effects of high commodity and increasing fuel prices during the year. The remittances also propped up the local currency making the Philippine Peso the region's best performing currency in 2007 appreciating roughly 19 percent to the US dollar, according to the Bangko Sentral ng Pilipinas (BSP). Consumer price inflation is expected to average below 3 percent in 2007 (according to State Cable Manila 000010) with private consumption, fueled by OFW remittances, playing a key driver of GDP during the period.

GRP economic planners expect this year's GDP growth rate just below 7 percent year-on year largely due to the expected slowdown of the U.S. economy. OFW remittances are projected to reach a record-level $15 billion in 2008, according to the BSP, although the stronger Peso will affect its purchasing capacity. The increased foreign currency inflows, therefore, are not expected to enhance the level of private consumption significantly this year. Philippine exports are also expected to drop. Although the Philippine economy is expected to display some degree of stability in the face of looming global financial problems, increasing food and oil prices in 2008 also threaten to raise average inflation (4.4 percent according to BSP projections).

Coffee is generally considered to be a household staple even among the lower economic classes. At present, soluble or instant coffee accounts for about 90 percent of all the coffee consumed in the Philippines. Domestic coffee consumption is estimated to remain relatively flat due to shrinking budgets caused by higher food and oil prices, as well some shifting to other beverage substitutes such as teas by other consumers.

Trade

Importation of coffee products increased significantly in 2007. Imports are sourced largely from neighboring Asian countries such as Vietnam (74 percent); Indonesia (24 percent) and others. Trade data from the National Statistics Office show imports of coffee beans in 2007 increasing from 9,458 MT in 2006 to 22,955 MT in 2007. While import volumes increased last year, it is likely that not all coffee imports are always accurately captured by the official government data. Strong informal trade between Indonesia and the southern island of Mindanao, where majority of the coffee companies are operating, is reportedly occurring. Without significant increases in coffee production and with continued growth in domestic coffee consumption, coffee bean imports will likely remain high at estimated nearly 40 percent of total annual domestic requirement.

Exports of instant soluble coffee increased slightly. The largest buyer of Philippine coffee products in 2007 was Japan, accounting for 33 percent of the total coffee export. Followed by Indonesia (15 percent); Guam (7 percent); Australia (6 percent). On the other hand, exports of coffee beans declined from 210 MT to 32 MT.

Policy

The 2008 MFN and CEPT tariff rates for coffee have not changed from the previous year.

Tariff Code	Description	MFN	CEPT	Remarks[3]
09.01	**Coffee, whether or not roasted or**			
	decaffeinated coffee husks and skins; coffee			
	Substitutes containing coffee in any proportion			
	- Coffee, not roasted			
0901.11	-- Not decaffeinated			
0901.11.10	--- Arabica WIB or Robusta OIB			
	A. In-Quota	30	5	Only for ID, LA & VN
	B. Out-of-Quota	40	5	Only for ID, LA & VN
0901.11.90	--- Other			
	A. In-Quota	30	5	Only for ID, LA & VN
	B. Out-of-Quota	40	5	Only for ID, LA & VN

[3] BN-Brunei Darussalam/KH-Cambodia/MM-Burma/TH-Thailand/ID-Indonesia/LA-Laos/VN-Vietnam

0901.12	-- Decaffeinated			
0901.12.10	--- Arabica WIB or Robusta OIB			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.12.90	--- Other:			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
	- Coffee, roasted			
0901.21	-- Not decaffeinated			
0901.21.10	--- Unground			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.21.20	--- Ground			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.22	-- Decaffeinated			
0901.22.10	--- Unground			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.22.20	--- Ground			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.90.00	- Other			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH

Source: Tariff and Customs Code of the Philippines, 2004

According to press reports, Nestlé Philippines has tied up with the United States Agency for International Development (USAID) for the training of coffee farmers to help raise supply of coffee. At present, the Philippines' largest coffee bean buyer Nestlé has started a coffee specialist training program for local government extension workers all over Mindanao and Visayas. This is under the Philippine Environmental Governance 2 (Ecogov2) project funded by the USAID. Nestlé has committed to buy all the production of the farmers going through the program for as long as it meets quality standards of the company.

Marketing

According to Euromonitor, specialist coffee shops in the Philippines are expected to continue growing in coming years. Specialist coffee shops grew in terms of number of outlets, transactions and value sales. With Starbucks gaining more popularity and other specialty coffee shops following suit, more such outlets are likely to appear. The strong growth is mainly attributed to good consumer demand, as coffee drinking has become a very popular social activity. Increasingly, Filipino consumers are settling for a good coffee instead of alcohol on a night out. Coffee shops have become a status symbol for younger consumers. Working people find these specialty coffee shops to be convenient places for afternoon business meetings. With the growing popularity of coffee drinking in the country, Filipinos have started to be more discriminating in their preferences for coffee, according to Euromonitor.

In the Philippines, multinational chains dominate specialist coffee shops. Led by Starbucks, specialist coffee shops have been enjoying robust growth since appearing in the late 1990s. Other popular foreign franchised specialist coffee shops include Seattle's Best, The Coffee Bean & Tea Leaf and UCC Coffee. Figaro Coffee Company, the most popular local specialist coffee shop in the Philippines, was actually established earlier than Starbucks in the country. Recognizing the good growth potential for specialist coffee shops, many Filipino companies and even growers of locally produced coffee beans have opened their own businesses. The support of the local government and agriculture sector has also helped to rejuvenate the Philippine coffee industry.

PSD Table									
Country	Philippines								
Commodity	Coffee, Green						(1000 HA) (MILLION TREES) (1000 60 KG BAGS)		
	2007 Revised			2008 Estimate			2009 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		07/2006	07/2006		07/2007	07/2007		07/2008	07/2008
Area Planted	133	133	133	135	135	131	0	0	131
Area Harvested	116	116	116	118	118	114	0	0	114
Bearing Trees	91	91	91	95	95	89	0	0	91
Non-Bearing Trees	15	15	15	15	15	15	0	0	15
Total Tree Population	106	106	106	110	110	104	0	0	106
Beginning Stocks	214	214	214	137	137	137	176	176	134
Arabica Production	34	34	34	35	35	33	0	0	34
Robusta Production	645	645	645	652	652	630	0	0	630
Other Production	24	24	24	25	25	23	0	0	24
Total Production	703	703	703	712	712	686	0	0	688
Bean Imports	292	292	292	400	400	382	0	0	390
Roast & Ground Imports	3	3	3	3	3	3	0	0	3
Soluble Imports	47	47	47	50	50	50	0	0	54
Total Imports	342	342	342	453	453	435	0	0	447
Total Supply	**1259**	**1259**	**1259**	**1302**	**1302**	**1258**	**176**	**176**	**1269**
Bean Exports	2	2	2	2	2	2	0	0	2
Rst-Grnd Exp.	0	0	0	0	0	0	0	0	0
Soluble Exports	60	60	60	64	64	62	0	0	62
Total Exports	62	62	62	66	66	64	0	0	64
Rst,Ground Dom. Consum	120	120	120	120	120	120	0	0	120
Soluble Dom. Cons.	940	940	940	940	940	940	0	0	940
Domestic Use	1060	1060	1060	1060	1060	1060	0	0	1060
Ending Stocks	137	137	137	176	176	134	0	0	145
Total Distribution	**1259**	**1259**	**1259**	**1302**	**1302**	**1258**	**0**	**0**	**1269**
Exportable Production	0	0	0	0	0	0	0	0	0